

CITY OF NEWTON, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Board of Aldermen and Mayor
City of Newton, Massachusetts

We have audited the financial statements of the City of Newton, Massachusetts as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Newton, Massachusetts' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as item 04-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newton, Massachusetts' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Newton, Massachusetts in a separate letter dated November 24, 2004.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

November 24, 2004

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Honorable Board of Aldermen and Mayor
City of Newton, Massachusetts

Compliance

We have audited the compliance of the City of Newton, Massachusetts with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The City of Newton, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Newton, Massachusetts' management. Our responsibility is to express an opinion on the City of Newton, Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newton, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Newton, Massachusetts' compliance with those requirements.

As described in item 04-2 in the accompanying schedule of findings and questioned costs, the City of Newton, Massachusetts did not comply with requirements regarding allowable costs/cost principles that are applicable to its Special Education Cluster and Title I Distribution programs. Compliance with such requirements is necessary, in our opinion, for the City of Newton, Massachusetts to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Newton, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-3 and 04-4.

Internal Control Over Compliance

The management of the City of Newton, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Newton, Massachusetts' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Newton, Massachusetts as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 24, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sulli, Fager & Company, LLC

November 24, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
<u>Direct Program:</u>		
Food Distribution Program	10.550	\$ 64,642
<u>Passed through State Department of Education:</u>		
School Breakfast Program	10.553	32,000
National School Lunch Program	10.555	316,027
		<hr/>
Total U.S. Department of Agriculture		412,669
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U.S. Department of Housing and Urban Development		
<u>Direct Programs:</u>		
Community Development Block Grant	14.218	3,385,002
Emergency Shelter Grant	14.231	91,000
HOME Investment Partnerships Program	14.239	1,341,375
		<hr/>
Total U.S. Department of Housing and Urban Development		4,817,377
		<hr/>
U.S. Department of Justice		
<u>Passed through the State Executive Office of Public Safety:</u>		
Law Enforcement Block Grant	16.592	7,400
Bullet proof Vest Partnership Grant	16.607	2,625
		<hr/>
Total U.S. Department of Justice		10,025
		<hr/>
U.S. Department of Transportation		
<u>Passed through the State Department of Transportation:</u>		
State Agency Program	20.600	8,345
		<hr/>
General Services Administration		
<u>Direct Program:</u>		
Help America Vote Voting Machine Replacement Grant	39.011	179,800
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Institute of Museum and Library Services		
<u>Passed through the State Library Board of Commissioners:</u>		
Library Services and Technology Grant	45.310	8,044
		<hr/>
Environmental Protection Agency		
<u>Passed through the State Executive Office of Environmental Affairs:</u>		
Environmental Education Grant	66.951	7,100
		<hr/>
U.S. Department of Energy		
<u>Passed through the State Department of Energy:</u>		
Solar Energy Demonstration Grant	81.117	13,541
		<hr/>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
<u>Passed through the State Department of Education:</u>		
Title One Distribution	84.010	657,346
SPED 94-142 Allocation	84.027	1,954,726
SPED Curriculum Frameworks	84.027	73,151
Carl Perkins Occupational Education	84.048	118,731
Title II - Education for Economic Security	84.164	10,540
SPED Preschool	84.173	79,543
SPED Early Childhood Training	84.173	1,814
Safe and Drug-Free Schools	84.186	50,628
Supported Employment Program	84.187	2,650
Small Learning Communities	84.215L	65,781
Innovative Education Program	84.298	46,937
Technical Literacy Grant	84.318	29,276
Comprehensive School Reform Grant	84.332	42,026
Title III - No Child Left Behind Grant	84.365	78,875
English Language Grant	84.365	1,225
Educator Quality Grant	84.367	260,508
Total U.S. Department of Education		<u>3,473,757</u>
U.S. Department of Health and Human Services		
<u>Passed through the State Department Office of Elderly Affairs:</u>		
Title IIIF Senior Fitness Grant	93.043	<u>1,080</u>
Centers for Disease Control and Prevention		
<u>Passed through the State Executive Office of Health and Human Services:</u>		
DFS Bioterrorism First Responder Liason Grant	93.283	289
Public Health Emergency Preparedness Grant	93.996	<u>19,206</u>
Total Centers for Disease Control and Prevention		<u>19,495</u>
Corporation for National and Community Service		
<u>Passed through the State Department of Education:</u>		
Learn and Serve Grant	94.004	<u>10,221</u>
U.S. Department of Homeland Security		
<u>Passed through the State Executive Office of Public Safety:</u>		
Homeland Security Equipment	97.004	909,113
<u>Passed through the State Office of Emergency Management:</u>		
Emergency Food/Shelter	97.024	17,498
Public Assistant Grant	97.036	464,187
Emergency Management Assistance Grant	97.042	289
State & Local All Hazards	97.051	10,500
Citizen Corps/Community Emergency Grant	97.053	<u>4,288</u>
Total U.S. Department of Homeland Security		<u>1,405,875</u>
Total		<u>\$ 10,367,329</u>

See notes to schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newton, Massachusetts and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 – U.S. Department of Agriculture Programs

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program and National School Lunch Program represent cash receipts from federal reimbursements.

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Newton, Massachusetts.
2. One material weakness disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. Instances of noncompliance material to the financial statements of the City of Newton, Massachusetts were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit were reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Newton, Massachusetts expresses a qualified opinion on the Special Education Cluster and Title One Distribution, and an unqualified opinion on the Child Nutrition Cluster, Community Development Block Grant, HOME Investment Partnerships, Homeland Security Equipment and Public Assistance programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:

<u>Program Description</u>	<u>CFDA Number</u>
<i>Child Nutrition Cluster:</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
 Community Development Block Grant	 14.218
HOME Investment Partnerships Program	14.239
Title One Distribution	84.010
 <i>Special Education Cluster:</i>	
SPED 94-142 Allocation	84.027
SPED Curriculum Frameworks	84.027
SPED Preschool	84.173
SPED Early Childhood Training	84.173
 Homeland Security Equipment	 97.004
Public Assistance Programs	97.036

8. The threshold used for distinguishing between Type A and B programs was \$311,020.
9. The City of Newton, Massachusetts did not qualify as a low-risk auditee.

B. Findings – Financial Statement Audit***Reportable Condition Considered to be a Material Weakness*****04-1 Reconciliation of Cash and Accounts Receivable**

Condition: Individual bank reconciliations, the reconciliation of cash between the Treasurer's cashbook and general ledger and accounts receivable (i.e., real estate, personal property, etc.) reconciliations between the Treasurer/Collector and the Comptroller were not performed timely during the fiscal year.

Criteria: Internal controls should be in place that provide for the timely reconciliation of cash and accounts receivable.

Effect: Misstatements due to error or fraud may occur and go undetected.

Auditors' Recommendation: Procedures should be implemented to reconcile individual bank statements to the Treasurer's cashbook; and the Treasurer's cashbook and receivable balances to the general ledger monthly.

Grantee Response: Progress has been made on the timely reconciliation of cash and accounts receivable and we are committed to a timely implementation of these recommendations.

C. Findings and Questioned Costs – Major Federal Award Programs Audit**DEPARTMENT OF EDUCATION*****Reportable Conditions Considered to be a Material Weakness*****04-2 Special Education Cluster – CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2004
Title One Distribution – CFDA No. 84.010; Fiscal year ended June 30, 2004**

Condition and Criteria: Program management does not maintain the required documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Cause: Procedures are not in place to accumulate the required documentation.

Effect: As a result of the required documentation not being maintained, the salary charges are subject to disallowance and, therefore, are considered a questioned cost.

Questioned Costs: Questioned salary costs charged to the Special Education Cluster grants and Title One Distribution grants total \$1,459,480 and \$378,492, respectively. This is considered material to the programs.

Auditor's Recommendation: Procedures must be implemented to ensure that appropriate supporting documentation is maintained and program management is aware of all compliance requirements of its major programs, including the allowable cost/cost principles requirements noted above.

For employees that work solely on federal grant programs, periodic certifications that the employees worked solely on that program for the period covered by the certification must be completed semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. For employees that work on both federal grant programs and other non-grant related activities, personnel activity reports must be maintained that (1) reflect an after-the-fact distribution of the actual activity of the employee, (2) account for the total activity for which the employee is compensated, (3) are prepared at least monthly and coincide with one or more pay periods, and (4) must be signed by the employee.

Grantee Response: Policies and procedures have been implemented as of July 2004 to ensure compliance with federal reporting requirements for documenting salaries and wages related to federal grant programs. These include a district policy statement and guide and forms that must be submitted regularly and which provide documentation from employees and supervisors as to the work performed by each full time and part time employee whose work is funded by a federal grant program. The Assistant Superintendent for Human Resources and the Grants Coordinator have worked together to ensure compliance with these procedures. This has included communication and training with school principals and other administrators who have grant related responsibilities.

Other Findings

- 04-3 Special Education Cluster – CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2004
Title One Distribution – CFDA No. 84.010; Fiscal year ended June 30, 2004

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education were not completed based upon expenditures processed and recorded in the City's general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

Cause: Policies and procedures are not in place to reconcile financial reports to the general ledger prior to submission.

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

Questioned Costs: There are no questioned costs related to this finding.

Auditor's Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: By mid fiscal year 2004, the grants coordinator who was new to the Newton Public Schools reviewed all financial records of all grants with the Assistant Superintendent for Business, Finance, and Planning as well as with the Comptroller's Office. All grant record keeping was updated at that time to keep reconciled spreadsheets and journals which balance to the City's Pentamotion accounting records and ledgers. These procedures have been continued in fiscal year 2005 with continually improving procedures including regular reports to the program managers of grant funded projects, expenditure transfers necessary to balance accounts and ledgers, and timely submission of all grant reports and funding requests.

04-4 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2004

Condition and Criteria: The claims for reimbursement forms submitted to the Commonwealth of Massachusetts’ Department of Education (DOE) were not always supported by proper documentation. We noted several instances where the number of lunches served reported to the DOE did not agree to the detail breakdown of school lunch activity.

Cause: Policies and procedures are not in place to reconcile claims for reimbursement to the supporting detail of lunches served prior to submission to the DOE.

Effect: As a result of reconciliations not being performed prior to submission of claims for reimbursement, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

Questioned Costs: Questioned costs related to this finding total \$1,700.

Auditor’s Recommendation: Procedures must be implemented to reconcile claims for reimbursement to supporting detail of lunches served, with all exceptions clearly noted, detailed and resolved.

Grantee Response: As of November, 2004, new procedures for tracking and reconciling meal counts have been implemented in Newton’s School Food Service Program. Management of the program changed from a private contractor to an in-house director and assistant director. Corrections to prior year lunch counts have been made and reported to the Department of Education.

D. Summary of Prior Audit Findings**03-1 Controls Over Cash (Material Weakness)**

Condition: Treasurer’s cash was not reconciled on a timely basis during fiscal year 2003. Reconciliation of June 30, 2003 cash balances was not completed until March of 2004, approximately 8 months after year end. Also during fiscal year 2003, bank statements were used as source documents for recording cash activity. Additionally, certain City bank reconciliations included outstanding checks greater than 6 months old that had not been investigated and resolved.

Current Status: The status has remained unchanged and a reportable condition considered to be a material weakness has been reported in the fiscal year 2004 Schedule of Findings and Questioned Costs as item 04-1.

03-2 Water and Sewer Receivable Reconciliations (Reportable Condition)

Condition: The Collector’s Water and Sewer accounts receivable balances were not reconciled to the general ledger in a timely manner during fiscal year 2003.

Current Status: The status has remained unchanged and a reportable condition considered to be a material weakness has been reported in the fiscal year 2004 Schedule of Findings and Questioned Costs as item 04-1.